Hot Topics & Key Trends in Compliance for 2019

The compliance and regulatory pressures on wealth management institutions continue to grow apace and institutions must take a holistic, all-inclusive approach to both solutions enabled by both human skills as well as technological advances. But amidst the global drive for regulatory rectitude, authorities in Asia are urged not to lose sight of the region's key strengths of wealth creation and economic dynamism.

These were the topics discussed:

- *Reflecting on the main challenges over the past year.*
- *What are the main compliance challenges for the year ahead?*
- *Risk Heat Map 2019 - what goes up, what goes down and why?*
- *Where should compliance teams focus their efforts and available resources?*
- *What role will digitisation of the compliance functions play this year?*
- *The rise of the Millennials and the challenges of adapting the skillset to their needs and demands.*
- *How are all these developments impacting your business?*

PANEL SPEAKERS

- **Adriel Loh**, Managing Director, Global Head of Compliance, Bank of Singapore
- **Josh Heiliczer**, Partner, Advisory Services, EY
- **Conrad Lim**, Managing Director & Deputy Chief Executive Officer, Senior Regulatory Counsel Asia, LGT Bank

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THE KEY TAKEAWAYS

1MDB has widespread ramifications for Asia

Partly as a result of Malaysia's huge 1MDB debacle regulators in Asia are increasingly focussed on AML and transaction monitoring, continually ratcheting up the compliance requirements.

Can technology bridge the gaps?

The vast and growing regulatory output and ever-growing compliance requirements mean that technology and its applications must improve. But when technology does not deliver what is often promised, the regulators care little for excuses, so senior management must improve processes and boost resources.

Technology's limitation - data

The panel agreed that the technology to spot patterns, clusters, segments, and anomalies is already available. But the data that is the food for AI and machine learning must improve.

Senior management accountability

Regulators are placing greater emphasis on the conduct of senior management and their accountability. Compensation structures are therefore under growing scrutiny to ensure that risks of non-compliance diminish.

Compliance must be independent and organisationally supported

Senior management must not be hampered by history or fear of upsetting clients. If the compliance team does not have the correct support from senior management and does not enjoy the appropriate stature and independence within the structure, they cannot function properly.

Regulators seeking out the scapegoats

Regulators increasingly want to know if there is a failure, who should be hung out to dry. Banks and other wealth management firms must not become so blinded by revenues and AUM building that they actually close their eyes to the risks.

Consequence management - a new catchphrase

Regulators want to see consequences, they want to see blood, they want to see it all on the record.

Taxation via global cooperation

Already, the Singapore and Hong Kong authorities appear to be receiving more and more enquiries from regulators around the region and potentially around the world, as a result of CRS [the Common Reporting Standard] and AEIO [Automatic Exchange of Information]. Accurate records and due attention to the content of emails are both increasingly vital.

Non-compliance costs and consequences

The costs of non-compliance were highlighted. Aside from financial losses, the risks of reputational damage are huge. Front-facing bankers and compliance professionals and the internal cultures must all improve their skills and insightfulness.

Business and expansion are also important

As a wealth centre, the panel observed that while tightening in many areas, Singapore's authorities appear to be edging Hong Kong in the quest to grow as a wealth management centre of global repute and excellence. Asia still values the wealth creator and is unashamed of private wealth and ownership, and Singapore's authorities appear to be balancing regulatory strictures with economic realities, hence the continuing growth of the family office and broader independent asset management spaces.

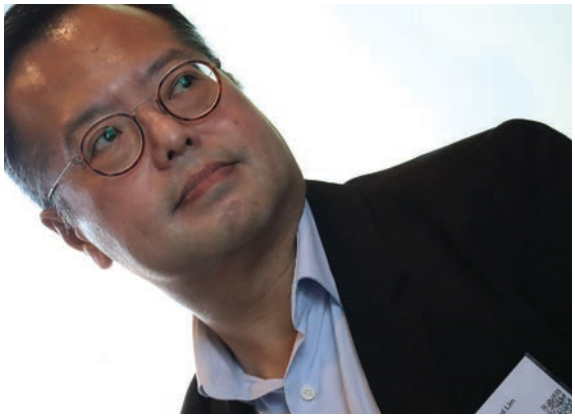
THE DISCUSSION BEGAN WITH ONE PANELLIST recalling that in early 2018 all eyes seemed to be on cryptocurrencies and the compliance story around them. "But aside from that story rather dying away, much remains the same and certainly the Malaysian 1MDB story refuses to go away."

1MDB was seized on by another expert as a critical cautionary tale. "I would like to make the book Billion Dollar Whale, the story of this whole 1MDB debacle, compulsory for my compliance officers," he quipped. "Partly as a result of this huge scandal, we are certainly seeing the regulators increasingly focussed on AML and transaction monitoring, that is a core focus. The regulators are really starting to up the requirements concerning what we need to do, even to close a single alert."

He commented that he empathised with all the compliance experts in the room, who know of the struggles that the industry faces. "Because on the one hand we have these volumes that are just piling up, and then, on the other hand, we have the regulatory expectations that are also piling up. The only bridge to meet these expectations is technology."

A new focus on management cultures

He also observed that there is a growing focus on the conduct of senior management and their accountability. "The regulators are beginning to drive the culture, the senior management tone



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from the top. We know that how we balance the compensation framework includes factors of risk and compliance and conduct and in the private banking world where conflicts of interest are potentially tremendous, regulators now have a greater focus regarding how we incorporate these factors into the remuneration framework. That is certainly an ongoing theme."

Another panellist reiterated that importance of transaction monitoring for regulators around the world. "The US regulators in particular, and perhaps the UK, focus their AML programme generally off transaction monitoring, whereas in most of the world it is driven by KYC programmes. We are now hearing more about bribery and corruption, so principals associated for example with a private bank are under scrutiny. CRS and AEIO are also going to be critical factors, with more information going back to regulators about offshore wealth, which will, of course, affect markets such as Hong Kong and Singapore.

Another panel member noted that based on the Billion Dollar Whale exposition of the 1MDB saga the compliance departments of some of the banks implicated had raised red flags, but they were generally held back by their senior management.

The independence of compliance

"The independence of the compliance function becomes ever more critical," he extrapolated. "How many times do we hear of senior management learning of alerts raised by client-facing bankers or other areas of the bank and saying 'oh, this is a big, important client, we shouldn't ask so much, let's

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DO YOU THINK THE COMPLIANCE BURDEN IS FAIR AND RATIONAL?

Source: Compliance in Asian Wealth Management Forum 2019

not upset them'. If the compliance team does not have the correct support from senior management and does not enjoy the appropriate stature and independence within the structure, those alerts naturally evaporate. In extreme cases, billions of dollars can then go missing."

He added that the regulators now want to know if there is a failure, who should be hung out to dry. "That is essentially the message we hear, and at the same time, we hear them asking if remuneration is based on numbers, or do the banks take into account conduct issues, compliance issues, values and so forth. We have to make sure we do not become so blinded by revenues and AUM building that we actually close our eyes to the risk that we are taking."

Every action has a consequence

A new line of discussion emerged when a panellist remarked that a new catchphrase that he has been hearing from regulators is 'consequence management'. "They want to see consequences, they want to see blood, they want to see it on record," he warned, "as these days it is no longer a slap on the wrist, they want to see people pay with their careers, for people to be punished financially as well."

Another added that there is an increasing shift in focus by the local regulators to the whole issue of investor suitability and disclosure. MiFID II has a very high level of disclosure requirements, and we are moving to a higher level of transparency in terms of the fees that we are charging our clients. If I had one topic that I think that we are going to see the local regulators really boost their focus on this year it is this issue of investor suitability."

Tax – a tightening net globally

One expert who specialises in financial crime highlighted the focus on tax. "For example, the Singapore and Hong Kong authorities will get more and more enquiries from regulators around the region and potentially around the world, which will see more regulation and direction in terms of what information we are going to have to collect from clients to support their offshore holdings. Moreover, we are also going to see much more concerning investigations, some of which will find their way into the media. Careful therefore about accurate records and not making any inappropriate comments in emails, especially as leaks will often occur."

Delegation is essential to minimise the impact on senior relationship managers and decision makers in wealth management firms, remarked another panellist. "Assistant RMs and similar are so well paid these days because the poor folks get delegated with the task of filling in and filing and we know that 90% of the call reports are

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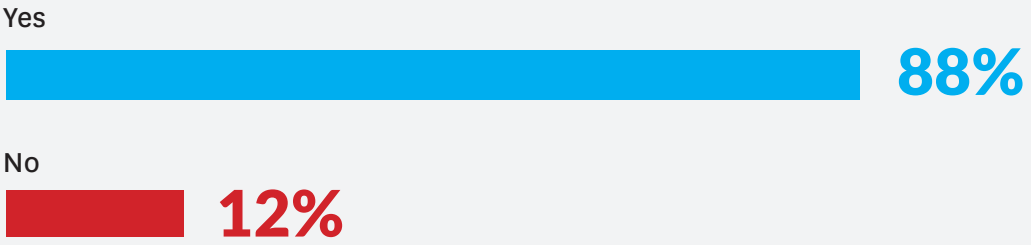
IS THERE STILL AN UNNECESSARY TICK BOX MENTALITY?



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probably actually from them. Truth is there is no simple solution; we live in a world of far greater documentation. And as we know, every year these standards are ratcheted up higher."

Technology must be invested in and harnessed

Technology, he said, can help but it can also hinder, as in some cases it does not deliver what is often promised. "Regulators don't care about excuses," he said, "so it is a managerial problem, requiring better processes and more resources."

The costs of non-compliance were also highlighted. "Aside from financial costs, the risks of reputational damage are huge," noted one expert. The improvements start from the outset, so for example if the client says he earns USD10 million a year from the company, we now need actually to be able to corroborate that. Information for credit applications are also vital now for the loans but also as corroborative evidence of the client's source of wealth. Bankers and private bankers, therefore, need to upscale themselves."

"On the compliance side we also need to upscale," he continued. "The compliance officer who does not think, who just blindly follows the rules and simply asks basic questions is not going to be accepted any more. It is now about understanding the regulations on the one hand, understanding the needs of the business on the other hand and then how we bridge between the business needs and the regulatory needs."

Evolution from the rules-based protocol

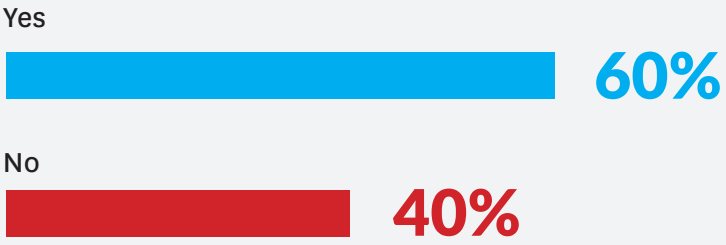
To conclude his assessment, he turned to technology. "We need to ensure that the alerts that we generate are more meaningful, do not waste time and resource. The rules-based methods must, therefore, evolve with the next stage of artificial intelligence to unearth anomalies, or what the AI people call 'outliers'. That is really the future of transaction monitoring, and that is where everybody wants to be. However, the question now is whether anyone has really implemented a workable operational solution that does away with rule-based monitoring and achieves AI-driven clustering and outlying because that is where truly the value add is. That is our holy grail."

Another panellist responded with the view that the technology to spot patterns, clusters, segments, and anomalies is there today. However, he commented that the issue is perhaps more the data going into the models, as machine learning could potentially make similar mistakes to humans, based on past alerts and so forth. "The 'bad' essential outcome can now come from a machine and technology perspective," he warned.

Collaboration is essential

He expanded his line of thinking to observe that from a wealth management and private banking perspective compliance must work with the front line to achieve the right decisions. Compliance staff must be thoughtful, he added, and explain what the risks are, not only to the bankers or assistant bankers

DO YOU THINK THE COMPLIANCE TEAM IN YOUR OWN ORGANISATION IS CAPABLE, RATIONAL AND CONSISTENT?



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but to the senior management, as this is where the accountability function really comes into place, as the senior management must make the decisions ultimately. "Compliance professionals need to upskill, the business needs to upskill, and they need to do it together with senior management to get to a much more impactful result," he concluded.

Another perspective emerged from a panellist who said how he had always disliked the term 'compliance'. "I think the idea of complying and obeying is too simplistic as the function has become increasingly complicated. Compliance is no longer a remote, disliked function, it is part of a team effort now, like flying a plane, you need pilots, engineers, co-pilots. This is a high-risk industry."

An expert turned to the prolific number of documents emerging from the regulators but highlighted Singapore's newly re-issued private banking code of conduct, which came out on the January 4 this year. "I recommend this to everyone," he said. "I know we have so much to digest, but this is one very well written, articulate, elegant document which summarises what we are dealing with in this business."

Balancing regulation with business development

"I certainly think the Singapore authorities are still very committed to growing Singapore as a wealth management centre," another expert interjected. "The MAS seems to be quite carefully calibrating things without risking the competitive advantages here. They are inclusive and work well with the industry at large. For example, this is significantly benefitting the growth of the family office space, as well as the independent asset management sector at large. I see Singapore being very committed to challenge the other historical players like Switzerland and move forward as a powerhouse in wealth management."

Another panellist agreed, noting that the focus is somewhat shifting in Singapore from oversight of private banks to greater scrutiny of SMEs. "When opening an SME account, who asks for ultimate beneficial ownership and source of wealth?", he mused. "You go to a private bank you get a million questions, while you go to SME space, you open the account just like that. I think the regulators are willing to realise that the risk is shifting away from the private banking space to places where there are less scrutiny and less RM intervention."

"Ah, but in Hong Kong," observed another expert, "the SMEs have a massive problem in opening accounts. "Singapore appears to be more receptive and perhaps the regulators more encouraging of the general business world and wealth creation universe."

The discussion closed on that note, a recognition perhaps at the panel's conclusion that regulation itself cannot and should not become the horse but should remain as the cart. Ultimately, Asia's prosperity has all been about encouraging entrepreneurs, rewarding risk and creativity and private wealth creation. Perish the thought that Asia becomes the next Europe, blighted with more and more restrictions and impediments that squeeze the life out of the economies. ■